

**Trade Update**

August 18, 2020

By Michael Anderson

If you don't get regular trade updates, [Sign Up Here](#) for CRA's weekly Trade Update

**Highlights**

- **U.S. - China:** The U.S. and China postponed a high-level progress review meeting on the phase one trade deal citing scheduling difficulties. President Trump says China's recent large U.S. agriculture purchase may "make me change my mind" referencing his recently diminished view of the deal.
- **232 Tariffs:** U.S. tariffs on Canadian aluminum products (10%) went into effect the past weekend as Canada vows to retaliate.

**Seasonal Produce:** During the first of two virtual hearings, lawmakers and growers from Florida presented a chorus of unfair trade allegations by Mexican producers, urging the Administration to take swift action to protect the U.S. industry from further damage.

- **U.S. - UK Talks:** Bilateral trade negotiations with the U.K. moved through a third round and were an "advanced" stage according to a top UK trade official.

**Quote of the week:** "A nation that does not have food security, does not have national security," (Congressman Ted Yoho, August 13, 2020, *Virtual Hearing on Seasonal and Perishable Produce*)

**China Trade**

- Customs and Border Protection issued a *Federal Register* notice (August 11) indicating that imported goods produced in Hong Kong will now have to be marked to indicate "China" as their origin, giving companies a transition period through September 25. The notification implements provisions in President Trump's executive order issued last month regarding removal of U.S. preferential treatment of Hong Kong as a separate customs territory under the *United States-Hong Kong Policy Act of 1992*. This change makes the Hong Kong origin goods subject to the same national tariff rates and rules, including any applicable tariffs invoked under USTR's Section 301 investigation.

Last week the Senate approved the nomination of Michael Nemeika to be Deputy U.S. Trade Representative. Mr. Nemeika's portfolio covers investment, services, labor, and intellectual property. He was previously Assistant U.S. Trade Representative for the China portfolio during intense scrutiny of the viability and China's fulfillment of the phase one trade deal during his confirmation hearing in July. Mr. Nemeika told the Senate Finance Committee that farmers and exporters should see a bounce in exports to China under the phase one deal before the end of the year, stating, "In the fall — with these seasonal products and soybeans in particular that are currently in the ground, we expect to see those purchases rapidly increase."

**Phase One Agreement**

- The U.S. and China postponed the first high-level check-in on the implementation of the phase one trade deal citing scheduling conflicts. The meeting was originally set for last Saturday, the 6-month mark since the phase one deal entered into force on February 14th. Amb. Lighthizer, Treasury Secretary Steven Mnuchin and Chinese Vice Premier Liu He were slated to lead the discussions. No word on a new date.
- Prior to cancellation of the 6-month progress review meeting, President Trump expressed a modest reversal of optimism on China's recent actions to fulfill commitments under the phase one trade deal. Trump characterized the deal as "incredible" but China's handling of the coronavirus pandemic had given him a "different feeling" about it. Recently Trump said that China was making large purchases of U.S. agricultural products — a major piece of the agreement. "They are giving me Midwest, our farmers, among the largest orders they've ever seen," Trump added. He noted that Amb. Lighthizer reported that "about 40 percent of what they're selling now is going to China." "I'm sure they're trying to make me change my mind a little bit, because you know my attitude on China," he said, "and it hasn't been very good." Trump emphasized several large announced purchases of soybean and corn concluding "they have gone into orders that are extremely large, extremely large, and our farmers are very happy."

Larry Kudlow, Director of the National Economic Council, emphatically denied any chance of the U.S. withdrawing from the China phase one deal amidst increasing tensions over Hong Kong, Huawei restrictions, and security concerns over the TikTok mobile application. Kudlow told reporters, "The one area we are engaging is trade." Referring to the phase one deal Kudlow said, "It's fine right now." Kudlow continued, "The evidence shows ... they've stepped up substantially" on purchases of U.S. goods, and characterized Chinese purchases as "really good numbers."

- As previously noted, China's year-to-date U.S. agricultural product purchases are 47% off the pace needed to meet the overall purchase level in the phase one deal, according to Scott Buehler's analyses. The purchase levels are slightly improved from the 50% lag last month. China's 2020 agriculture purchases through June totaled \$6.6 billion and are significantly below the \$9.8 billion year-to-date level that is needed to meet the phase one commitments based on the target value, the historical pace, and the baseline year set out in the agreement.

**U.S.-China Phase 1 Tracker for Agriculture Products\***



**USMCA**

- Last week, the Mexican government contended that the U.S. International Trade Commission's (USITC) interim rule to implement USMCA provisions on investigations of trucking services are inconsistent with the deal. In its submission to the USITC, the Mexican government said the Commission's interim rules "broaden the conditions for the application of the safeguard measure" in the USMCA, dictating which trucking services can be subjected to an investigation. The USMCA implementing bill requires that the USITC launch an investigation into cross-border, long-haul trucking services from Mexico when an interested party files a petition alleging material harm to the U.S. industry. By adding the term "relevant sub-market" in its interim rules, the USITC appears to be opening "the possibility to impose limitations on the provision of cross border long-haul truck services based on the view that there is a significant loss of market share in only one small part of the U.S. market," the submission states. "This is inconsistent with the USMCA, which as discussed above requires that the significant loss affect the market as a whole." The President, the Office of the USTR, or a U.S. industry representative may file a petition to launch an investigation. However, the USITC has not yet received any petitions to date.

- On Aug. 12, Mexican President Andres Manuel Lopez Obrador announced that Mexico plans to gradually phase out the use of glyphosate by the time the current term of the administration ends in 2024. The Agriculture Ministry announced that private food producers will have until 2024 to phase out glyphosate, which has sparked safety concerns in a number of countries. "We couldn't get rid of it in one fell swoop, it can't be done, it would hit food output," President Lopez Obrador told reporters. "We would have to import, and also products and foods that are grown with these agrochemicals," he added. Additionally, Lopez Obrador noted that some countries had already tried to find alternatives to glyphosate, without success.

**U.S.-U.K. Trade Agreement**

- Liz Truss, the U.K.'s top trade official said talks with the U.S. are showing progress and are in "advanced stages." Recently visiting Washington, DC, Truss said the U.S. and U.K. will exchange their first market-access offers between now and the next round of negotiations in early September. Truss elaborated in a statement that "Most chapter areas are now moving into the advanced stages of talks," and that "The two sides are expected to exchange their first Market Access offers in this time-period." The third round of talks occurred during July 27 to Aug. 7, with the fourth round expected in September. Truss also highlighted the "positive progress" in the talks, noting negotiators held 33 sessions covering 21 "workstreams." The talks on intellectual property were particularly detailed, text-based discussions, "and the two sides "held their first text-based discussions" on rules of origin Truss said.

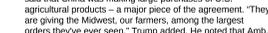


Liz Truss, UK Secretary of State for International Trade

- As reported earlier, U.K. Trade Secretary Liz Truss earlier told *The Times* she was pushing the U.S. to lift bans on lamb and haggis, which the U.S. has banned since the late 1980s and early 1970s, respectively. However, the U.K. will continue to ban U.S. chicken, according to Tim Smith, the chair of the U.K.'s newly launched Trade and Agriculture Commission. The U.K. formally launched the Trade and Agriculture Commission last month.

**COVID-19 Developments**

- The U.S. goods trade imbalance narrowed slightly in June for the first time since February as exports increased, though shipments of autos remained significantly below pre-pandemic levels. The overall gap in goods and services trade narrowed to \$50.7 billion from a revised \$54.8 billion in May.



**Section 232 Tariff Actions**

- The re-imposed tariffs on Canadian aluminum imports went into effect on Monday, August 16. President Trump previously announced 10 percent tariffs on some imported Canadian aluminum products citing a surge of Canadian aluminum into the U.S. USTR said in a statement that Canadian aluminum into the U.S. "has intensified in recent months, despite a contraction in U.S. demand."
- The Canadian government has announced counter tariffs on approximately \$2.7 billion of U.S. aluminum and aluminum-containing products. The announced retaliation list includes products such as golf clubs, wheel rims, and refrigerators, after 30 days of consultations. Final retaliatory tariffs will be imposed and will be "perfectly reciprocal," according to Chrystia Freeland. She continued, "Our objective here — exactly as it was the last time — is to inflict a minimal amount of damage on Canada and to have, frankly, the strongest possible impact in the United States." "Our trade officials have worked on this list very, very carefully. We do hope that when Americans look at this list, they will understand why having a tariff dispute is a really bad idea."

**Ongoing 232 Investigations**

- Presently three separate investigations are progressing at the Department of Commerce under "threat to national security" provision contained in section 232 of the Trade Expansion Act of 1962. The investigations involve transformer parts, vanadium, and mobile cranes. The initial comment period on Vanadium has closed and rebuttal comments due on August 17th.

- The Department of Commerce has 270 days to provide a report to President Trump determining whether the imports in question threaten to impair U.S. national security, along with a recommendation for action. President Trump will then have 90 days to determine whether or not to impose restrictions so that imports no longer threaten national security.

**U.S. - Japan Trade Developments**

- No significant updates on timing of phase two bilateral negotiations with Japan. Last month Amb. Lighthizer acknowledged that the coronavirus has delayed phase two negotiations with Japan. During Congressional testimony, Amb. Lighthizer said he would expect the phase two talks to start "in the next couple of months." Prior to the outbreak of COVID-19, commencement of negotiations on a phase two or a comprehensive trade deal were expected no earlier than May according to sources.

**U.S.-EU Trade**

- USTR announced modest adjustments to the product list covering \$7.5 million in EU products under the WTO Civil Aircraft case regarding illegal launch aid by Airbus. The USTR statement said:

"Today, as required by U.S. law, the United States Trade Representative is issuing a modification to the list of products subject to WTO-authorized additional duties in the United States' successful WTO challenge to subsidies for large civil aircraft provided by the European Union, France, Germany, Spain, and the United Kingdom. USTR is removing from the tariff list certain products from Greece and the United Kingdom and adding an equivalent amount of trade from France and Germany. The changes are modest; the amount of products subject to countervailing duties will remain unchanged at \$7.5 billion and the tariff rates will remain unchanged at 15% for aircraft and 25% for all other products."

- The EU and member states have not taken the actions necessary to come into compliance with WTO decisions," Ambassador Robert Lighthizer stated. "The United States, however, is committed to obtaining a long-term resolution to this dispute. Accordingly, the United States will begin a new process with the EU in an effort to reach an agreement that will remedy the conduct that harmed the U.S. aviation industry and workers and will ensure a level playing field for U.S. companies."

- EU reactions to the announcement were mixed. The U.S. left 15% tariffs on aircraft and parts imports while maintaining 25% tariffs on a range of EU goods like wine, cheese and Scotch whisky. There was some relief that the U.S. threats of levies as high as 100% were abandoned and opted against new import taxes on British gin. EU Trade Commissioner Phil Hogan said he "will continue his close engagement with Ambassador Robert Lighthizer, with a view to finding a solution based on constructive dialogue & mutual benefits rather than on conflict."

- USTR announced the list of French goods worth \$1.3 billion for potential imposition of 25% tariffs should France impose digital services taxes on U.S. companies next year. The potential tariffs result from a Section 301 investigation in which USTR concluded and announced it had found France's tax would discriminate against U.S. companies. Section 301 tariffs were delayed earlier in the year when President Trump and French President Macron struck a deal that would delay the imposition of U.S. tariffs while France deferred the collection of the tax to let negotiators at the OECD on a new international tax structure play out in hopes of a resolution. "Those efforts have stalled, and France originally stated digital services taxes would start in January 2021."

- The list of goods from France facing 25% tariffs include soap, handbags and cosmetic products (fashion tariffs). Other sensitive products, like French wine and cheese, were not included. The tariffs could be delayed up to 180 days (i.e. Jan. 6, 2021) — as long as France continues to defer imposition of the tax.

**U.S. - Kenya Trade Developments**

- The second round of U.S.-Kenya trade talks were ongoing last week after being suspended amid concerns with possible coronavirus exposure within the Kenyan delegation. No details from the round are presently available.



Earl Blumenauer, U.S. Congressman

- Separately, Amb. Lighthizer met with Representatives Dwight Evans and Earl Blumenauer to discuss U.S.-Africa trade issues, including the Kenya trade negotiations. Lighthizer noted the importance of the present negotiations as a Kenya free trade agreement could serve as the model for expanding U.S. trade on the continent which will account for one-fifth of all consumers by 2030. Rep. Blumenauer commented on expanding trade in Africa stating, "Expanding U.S. trade with Africa is a critical opportunity for global affairs, for the economy, for national security, and for relationship building." He added, "Ambassador Lighthizer has been clear about the needs and opportunities in this area, and today's conversation organized by Congressman Evans will help us continue to move these important opportunities forward."

**Seasonal Produce**

- Seasonal growers, agriculture industry representatives, lawmakers, and local officials urged the Trump administration to take action against alleged trade-distorting subsidies from the Mexican government for perishable produce exports to the U.S. USTR and other Administration officials told Florida produce groups the Administration is committed to developing an action plan for dealing with any unfair trade practices by Mexico. During the Aug. 13th hearing, the first of two virtual hearings on seasonal produce, Amb. Lighthizer indicated the plan, which will outline actions by the Administration to address alleged unfair trade practices harming U.S. growers of seasonal produce, will be completed by September 1. Amb. Lighthizer noted that the U.S. growers "have every right to expect fair trade in their home market."

- In opening remarks, USDA Secretary Perdue noted discord between growers in the Southeast who want trade remedy action and growers in the Southwest who do not. Growers from the West and Southwest did not support the trade remedy mechanism, but the Administration is determined to rectify the hole left in the USMCA for Florida and Georgia growers. "We want to know what we can do, short of closing the border," he said.

- Florida Sen. Marco Rubio said he wants the Administration to take a Section 301 action against Mexican imports. Rubio said Mexican producers are benefiting from government subsidies and are underpricing their products in a way that is "clearly aimed at killing the US industry." In addition to government subsidies, Mexican growers also benefit from cheap labor and questionable environmental practices, Florida Rep. Darren Soto said. This has led to the dumping of underpriced Mexican blueberries into the US market. Mexico's share of the U.S. fruit and vegetable market is up 21.7 percent from 10 years ago, House Ways and Means Committee member Rep. Vern Buchanan said. He urged USTR to launch a trade action to protect US growers from Mexican unfair trade practices "in the near future."

- The second virtual hearing occurs on Aug. 20th at 9:00 AM EST with 24 witnesses scheduled to testify including lawmakers and produce growers from Georgia.

- In an Aug. 12 letter to Amb. Lighthizer, Arizona lawmakers reaffirmed their opposition to new trade remedies that developed in a January 9, 2020 letter from Amb. Lighthizer to the Florida congressional delegation to review and determine options regarding "trade-distorting policies that may be contributing to unfair pricing in the U.S. market for seasonal and perishable products and to assess the impact of those policies on U.S. producers." The letter notes that within 60 days after "entry into force" of the USMCA, the USTR will "implement effective and timely remedies necessary to address any trade distorting policies" affecting U.S. growers. Additionally, within 90 days, the Department of Commerce, U.S. Department of Agriculture and USTR will have hearings in Florida and Georgia to hear testimony from growers.

**U.S. - India Trade Developments**

- No significant updates since India's Commerce Minister Piyush Goyal reiterated his optimism for a limited U.S.-India trade deal is in reach after two years of negotiations, saying that the U.S. and India are in the homestretch of negotiations on an initial stage pact. He said elsewhere, "Minister Goyal said at an event hosted by the U.S.-India Business Council last month, Goyal emphasized that the U.S. and Indian leaders should also look at a preferential trade pact with 50 to 100 products and move to a comprehensive free trade agreement in the long term. Earlier Goyal said he and Commerce Secretary Wilbur Ross exchanged views "on the ongoing India-U.S. trade discussions and appreciated the substantial progress made by both sides on most of the outstanding issues."

- Amb. Lighthizer told lawmakers in June that the U.S. is currently in trade negotiations with India. Ambassador Lighthizer previously said negotiations with India are taking longer than he expected. "They are stopped and insist on keeping their tariffs and we are dogged in insisting that we are going to get a fair deal. So we are working on it very much. And hopefully we will get a good outcome," Amb. Lighthizer added.

**WTO**

**WTO Leadership**  
News from the second stage of the DG selection process is not so clear this week as work on the WTO typically slows during August. September 7th is the next major DG selection milestone when the selection committee will enter the third stage into the DG selection process, which entails narrowing down the pool of candidates to one name. The candidate pool will go from eight candidates to five, then from five to two, and finally from two to one candidate, according to sources in Geneva. Additionally, Sources in Geneva note that the strongest bets for the candidates most likely to move onto the second round included the U.S. nominee — Hogeon Okonjo-Iweala, Amna Mohamed, and Yoo Myung-hee — along with Mexico's Jesus Seade, while the fifth slot remains a toss-up. According to several sources, the three women running are strong contenders and top-tier candidates, with the two African women widely considered the frontrunners. Whether or not updates on the candidacies of the other candidates, the WTO may be poised for its first-ever woman director-general.

- The final list of candidates and their professional backgrounds are products of the

**WTO DG Candidates**

Candidate	Country	Experience
Jesus Seade	Mexico	Undersecretary of Foreign Relations for North America, Chief negotiator for Mexico in the USMCA, former Economist at World Bank   <a href="#">Biography</a>
Ngozi Okonjo-Iweala	Nigeria	World Bank executive, Minister of Finance and Economic Affairs for Nigeria   <a href="#">Biography</a>
Abdel-Hamid Mamdouh	Egypt	Egyptian Trade negotiator, trade lawyer at King & Spalding (Geneva), Director WTO Trade Services Division   <a href="#">Biography</a>
Talar Udarovski	Moldova	Former Moldovan Minister of Foreign Affairs and Ambassador to the WTO   <a href="#">Biography</a>
Yoo Myung-hee	South Korea	Trade Minister for the Republic of Korea   <a href="#">Biography</a>
Amna C. Mohamed	Kenya	Former Foreign Affairs and International Trade Minister for Kenya   <a href="#">Biography</a>
Mohamed Muzaid Al-Tuwaijri	Kingdom of Saudi Arabia	Minister advising report on international and local economic strategic matter, former Minister of Economy and Planning for Saudi Arabia   <a href="#">Biography</a>
Liam Fox	United Kingdom	Former United Kingdom Trade Secretary   <a href="#">Biography</a>

Sign up for the **Corn Refiners Association's** weekly Trade Update

